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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Capital Goods Imports . . .

In September, another massive surge of imports added $12.7 billion to the nation's merchandise trade deficit. The red ink on our foreign trade accounts is expected to reach a record $130 billion (f.a.s. exports/c.i.f. imports basis) this year—almost double the previous record of $69 billion set just last year. The powerful dollar, widely viewed as primarily responsible for the U.S. merchandise trade deficit, shows signs of sustaining its present strength in spite of slowing U.S. economic growth.

Yet there are several ways in which the strong dollar affects U.S. economic performance—and not all of them are bad. Consumers, for example, benefit from the restraint which a robust currency places on domestic prices of both imports and on those U.S.-produced goods and services which compete with imports. To U.S. producers and exporters, however, the same monetary phenomenon reduces their ability to compete overseas and puts downward pressure on prices and profit margins in the domestic market.

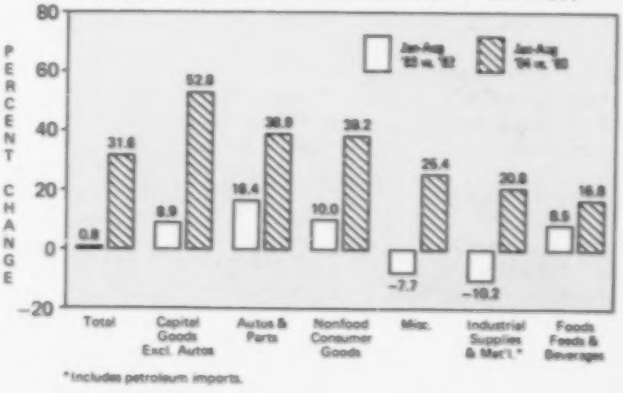
But the dollar's current strength has allowed this country's industrial sector to replenish itself more efficiently. The fastest growing category of U.S. imports so far this year has been capital goods (excluding automotive vehicles and parts), as U.S. industry has tapped overseas sources in order to upgrade this country's industrial infrastructure (see chart). Between January and August, capital goods imports added up to $39.9 billion—only $1 billion less than the total capital goods imports of the U.S. in the entire year 1983.

Indeed, not all of the imports which are used by American industry in producing goods or services are included in the import classification of capital goods. Trucks, buses and other commercial vehicle imports are included in imports under automotive vehicles, parts and engines. Such vehicles and parts have amounted to about 15 percent of total automotive imports so far this year. These imports should also be considered as capital goods.

Unlike consumer goods, which are used by individuals and families, thus adding little or nothing to additional economic growth, capital goods become part of the nation's capital stock and contribute directly to future production and to further economic growth. Consequently, imports of capital goods, while adding to the trade deficit, also help to increase productivity and improve competitiveness.

Not all U.S. manufacturers take this view, however, particularly producers of capital goods. Machine tool orders, for example, rose 83 percent in the first three quarters of this year compared with the same period in 1983—yet over 42 percent of this year's stock of new machine tools is expected to be imported.

SELECTED COMPONENTS OF U.S. IMPORTS
(PERCENT CHANGE FROM SAME PERIOD A YEAR AGO)



*Includes petroleum imports.

. . . Give U.S. Producers . . .

The strong dollar also helps U.S. business in other ways. The benefits of lower dollar costs for industrial imports are clearly apparent in the growth of imports of industrial supplies and materials. The average trade-weighted value of the dollar in the January-August period this year was 9.1 percent above its average value in the same period of 1983. And in the first eight months of 1984, U.S. business brought in $82.6 billion in industrial supplies compared with $68.4 billion a year ago—a 21 percent increase. Not only has the utilization of these sources of materials contributed to lowering domestic costs for U.S. manufacturers, but it has helped to spread the benefits of the economic upswing.

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Further, business outsourcing overseas, in which labor-intensive segments of the manufacturing process are undertaken in courtries where lower labor costs prevail, results in lower overall costs to the U.S. manufacturer and lower prices to the consumer. These advantages are particularly apparent in the electronics industry where foreign assembly of U.S.-manufactured components is a common practice. Some high-technology products such as telecommunications equipment and electronic office machines have key subassemblies put together abroad from U.S.-made parts. These are shipped overseas and then returned to the United States for final assembly. The developing countries of Southeast Asia are important partners in this process. In 1983, for example, the U.S. exported $2.4 billion in electronic components and parts to the four Asian developing countries of Malaysia, the Philippines, Singapore and South Korea. These parts were then re-imported at a cost of $2.9 billion—the difference being the value added by foreign processing.

. . . More Bang For The Buck

The high-tech industries are not the only ones exploiting the lower cost advantages of overseas production. Many of the more traditional industries are going abroad as well. Some U.S. machine tool companies are moving portions of their manufacturing operations away from this country. And, in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	10/31/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	157.936	+ 1.291	+ 2.608
Loans to Depository Inst.	5.187	– .458	+ 4.747
Float	.569	– .110	– .643
Total Reserve Bank Credit	176.151	+ .985	+10.003
Treasury Deposits with Federal Reserve Banks	3.803	+ .667	– .120
Currency in Circulation	175.864	– .528	+11.327
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.233	+ .175	+ 9.125
	10/24/84		
Member Bank Reserves:			
Total Reserves Held	37.824	– .264	+ 1.949
Excess (Deficiency)	.453	– .463	– .001
Net Free Reserves	.080	– .391	+ .045

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	(10/22/'84)	544.7 + 0.5‡	+ 5.0‡
M2	(September '84)	2,306.4 + 6.0	+ 7.4
M3	(September '84)	2,891.0 + 7.2	+ 9.5
Domestic Nonfinancial Debt	(2nd Q'84)	5,589.6 + 12.9	+ 12.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/2/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.89%	9.00%
* Federal Agencies	9.04	9.73	10.28
* Project Notes–Taxfree (46% Taxable Equivalent)	10.09	10.09	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.55	9.75	10.25

‡Finance Company Paper–Prime		‡** Bankers' Acceptances	
5- 14 days	9.50%	Dec.	9.60%
15- 29 days	9.50	Jan.	9.60
30- 59 days	9.50	Feb.	9.60
60- 89 days	9.50	Mar.	9.65
90-179 days	9.50	Apr.	9.65
180-239 days	9.50	May	9.60
240-270 days	9.50		

‡Industrial Paper–Prime			
30- 89 days	9.35%	†Federal Funds Effective Rate	10.80%
90-120 days	9.28		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Sep '84	4.8%	5.0%	4.8%
Change in Producer Prices*	Sep '84	– 2.4%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons)†	Oct '84n	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84n	7.4%	7.4%	8.8%
Personal Income*	Sep '84	$ 3,071	$ 3,045	$ 2,785
Leading Indicators Composite Index (1967=100)†	Sep '84n	164.6	164.0r	160.0
Industrial Production Index (1967=100) †	Sep '84	165.1	166.1	153.8
Net Change in Consumer Installment Credit †	Aug '84	$ 6.00	$ 7.11	$ 4.09
U.S. Merchandise Trade Balance †	Sep '84n	–$ 12.65	–$ 9.86	–$ 6.22
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84	1,676	1,539	1,679
New Construction Expenditures*	Sep '84n	$ 315.3	$ 311.9r	$ 281.7
Total Business Inventories †	Aug '84	$ 556.0	$ 551.4	$ 504.3
Total Business Sales †	Aug '84	$ 410.7	$ 411.4	$ 373.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

some cases, they are importing completed machines made to their own specifications by foreign suppliers in much the same way that U.S. automobile manufacturers supplement their domestic product line with vehicles produced abroad.

Some of the benefits which U.S. business derives from the strong dollar are more diffuse and less easy to quantify. Among these is the discipline imposed on management and labor by increased competition from abroad, particularly as it relates to domestic labor costs and productivity. For instance, in July and August imported steel accounted for over 30 percent of U.S. steel consumption compared with about 20 percent for the year 1983. This rise in imports has caused U.S. producers to sell steel at steeply discounted prices. Yet another benefit is the efficiency created by the larger number of suppliers and wider range of alternative industrial inputs available when both domestic and foreign suppliers are competing for orders.

When both the direct and the indirect benefits of the strong dollar are considered, there may well be more pluses than minuses for U.S. business than is currently realized. Certainly, when the very great contribution which the lower dollar cost of imports and U.S. import-competitive products is making to containing domestic inflation is considered, the positive impact of the strong dollar is strong, indeed. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/17/84)	160,065	+ 649	+16,793
New York City (10/24/84)	34,178	– 235	+ 3,297
Commercial Paper (10/24/84)	231,878	– 1,426	+53,633

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/84)	245,490	– 986	+28,171
New York City (10/24/84)	64,288	+ 73	+ 7,100

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/84)	627,370	– 2,700	+92,160
New York City (10/24/84)	141,191	+ 1,182	+20,960

Financial Markets

	Friday 11/2/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.28%	– .31	+ .18
180-Day Bills†	9.71	– .32	+ .21
Longest Bills†	10.09	– .32	+ .14
Recent Issues:			
11⅝s 10/31/85	10.87	– .36	
11¾s 9/30/88	11.40	– .21	
12⅝s 8/15/94	11.61	– .29	
12⅛s 8/15/14	11.47	– .25	
Municipals:			
Bond Buyer–20 Bond Index* (11/1/84)	10.11%	+ .06	+ .32
Blue List Total ($ Million)	$1,865	+ $322	+ $434
30-Day Visible Supply ($ Million)	$1,777	– $743	– $448
Total	$3,642	– $421	– $ 14
Corporates:			
Moody's Aa Composite (11/1/84)	12.78%	– .15	+ .10
30-Day Visible Supply ($ Million)	$1,735	+ $455	+ $310
Stocks:			
Dow-Jones Averages:			
Industrials	1,216.65	+ 11.70	– 1.64
Transportation	532.32	+ 9.34	– 54.28
Utilities	143.82	+ 2.25	+ 5.24
65 Stocks	482.21	+ 6.09	– 11.72
Standard and Poor's 500 Stocks	167.42	+ 2.13	+ 4.98
N.Y.S.E. Composite Index	96.51	+ 1.17	+ 2.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,062	+ 2,676	+ 7,712

* 46% Taxable equivalent 10.72%.

† Bond equivalent.

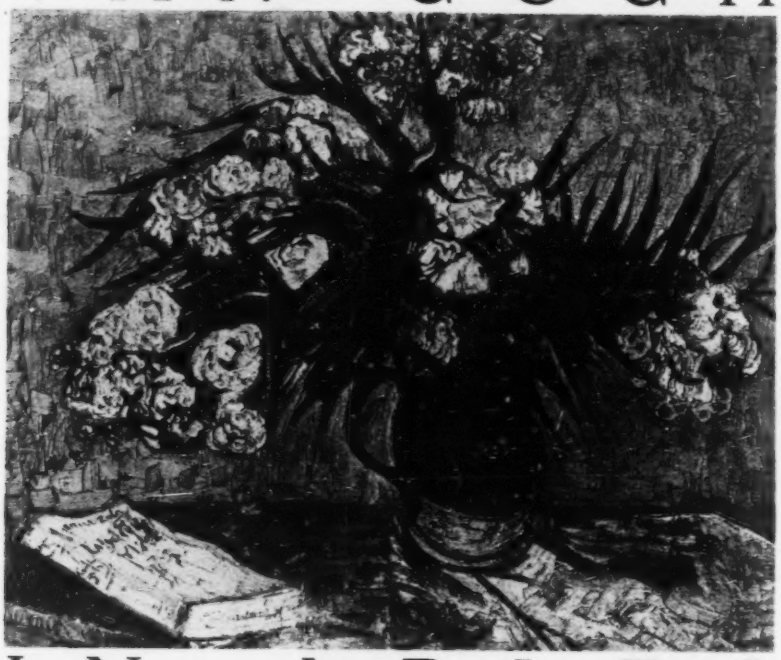
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/2/84	Week Ago
Overnight	10.25%	9.50%
1 month	9.81	9.69
3 month	10.06	10.13
6 month	10.19	10.56
1 year	10.69	11.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.20%
Long Term (7 to 15 yrs.)	12.10	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/2/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01681	59.50
Canada	.7631	1.3105
Denmark	.09306	10.7460
France	.1103	9.0650
Germany	.3390	2.9495
Italy	.0005439	1838.50
Japan	.004129	242.20
Mexico	.004773	209.50
Netherlands	.3007	3.3255
Switzerland	.4109	2.4335
U.K.	1.2515	.7990

VAN GOGH



IN ARLES

The Metropolitan Museum of Art
October 18-December 30, 1984

Sponsored by Manufacturers Hanover
and the Robert Wood Johnson, Jr. Charitable Trust

This exhibition gathers over 140 van Gogh works of art that have never been seen together before, and Manufacturers Hanover is pleased to help make it possible.

All visitors must have a ticket for a reserved date and time. Tickets available at the Uris Center of the Museum during all public hours. Also through Ticketron and Tele-Tron, a telephone service that accepts reservations with major credit cards.
For ticketing information, call 570-3970.

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